

Message Text

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ACTION ARA-20

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C O N F I D E N T I A L CARACAS 5383

E.O. 11652: GDS

TAGS: EMIN ENRG

SUBJ: MINISTER OF MINES: NEGOTIATIONS BETWEEN GOV AND FOREIGN-OWNED
IRON AND OIL COMPANIES

REF: CARACAS 5363

1. DURING MY CONVERSATION THIS MORNING WITH MINISTER OF MINES
VALENTIN HERNANDEZ (REPORTED REFTTEL), I INQUIRED AS TO THE STATUS
OF CONVERSATIONS BETWEEN GOV AND THE FOREIGN-OWNED IRON AND OIL
COMPANIES. THE MINISTER SAID THAT SO FAR AS HE KNEW, CONVERSATIONS
BETWEEN U.S. STEEL AND THE COMMITTEE MADE UP OF MINISTER OF STATE
PEREZ GUERRERO AND CHIEF OF CORPORACION VENEZONANA DE GUAYANA GAMBOA
WERE PROCEEDING SATISFACTORILY. HE THOUGHT THERE WOULD BE
AMPLE ROOM FOR A CONTINUED COLLABORATION BETWEEN U.S. STEEL AND
GOV FOR FUTURE PRODUCTION, ALTHOUGH HE COULD NOT ENVISAGE AN INCREASE
IN TONNAGE FOR U.S. STEEL ABOVE ITS PRESENT CONTRACTS, SAYING THAT
HOPEFULLY VENEZUELA WOULD USE ANY SURPLUS FOR ITS OWN PURPOSES IN
MAKING STEEL ITSELF. HE TOOK A FAR MORE
OPTIMISTIC VIEW OF THE ONGOING CONVERSATIONS THAN DID COHLMAYER,
PRESIDENT OF ORINOCO MINING, WHO LAST NIGHT TOLD ME THAT HE THOUGHT
THE VENEZUELANS WANTED TO GO -THE WHOLE HOG" AND TAKE OVER THE
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ENTIRE OPERATION OF ORINOCO MINING EXCEPT FOR THE BRIQUETTING PLANT

FOR WHICH GOV ALREADY HOLDS AN OPTION TO ACQUIRE A 25 PER CENT INTEREST.

COHLMeyer SAID THAT IN ABSENCE OF PEREZ GUERRERO, VENEZUELAN NEGOTIATING TEAM HAD TAKEN A MORE AGGRESSIVE ATTITUDE WITH ADDITION OF A THIRD MEMBER, BRIGITO NATERA, DIRECTOR OF MINES, OF THE MINISTRY OF MINES AND HYDROCARBONS. LIKEWISE ACCORDING TO COHLMeyer, A DECREE IS COMING OUT WHICH WILL APPLY MOST OF THE PROVISIONS OF THE PETROLEUM REVERSION LAW TO THE IRON INDUSTRY ALTHOUGH PERHAPS NOT WITH SUCH RIGOR WITH RESPECT TO THE REVERSION OF REAL ESTATE AND OTHER PROPERTIES.

2. I DISCUSSED FOREGOING CONVERSATION THIS AFTERNOON WITH MESSRS. COHLMeyer AND RYAN OF U.S. STEEL AND SAID THAT POSSIBLY TO GAIN TACTICAL NEGOTIATING ADVANTAGE, PERHAPS THE NEW MEMBER OF THE VENEZUELAN TEAM HAD TAKEN A DELIBERATELY HARDER LINE. HOWEVER, I WAS ENCOURAGED BY THE RELATIVELY OPTIMISTIC ATTITUDE OF HIS SUPERIOR, VALENTIN HERNANDEZ, AND EXPRESSED THE HOPE THAT ON THE U.S. STEEL SIDE THEY WOULD KEEP THE NEGOTIATIONS GOING IN A HARMONIOUS

SPIRIT. I ADDED THAT THERE WAS NO DOUBT AT ALL THAT PRESIDENT PEREZ INTENDS TO HAVE A NEW STEEL MILL IN THE LOWER ORINOCO AREA BEFORE HIS TERM EXPIRES. IT THEREFORE BOILS DOWN TO WHO WILL BUILD IT, WHETHER AN AMERICAN COMPANY LIKE U.S. STEEL OR THE GERMANS, JAPANESE OR RUSSIANS. I THOUGHT THAT, GIVEN THIS PREMISE, U.S. STEEL MIGHT HAVE CONSIDERABLE LEVERAGE IN MAKING AVAILABLE ITS TECHNOLOGY TO BUILD A NEW STEEL MILL ON A TURNKEY BASIS WHILE AT THE SAME TIME TO CONTINUE IN THE IRON ORE BUSINESS AS A SERVICE CONTRACT COMPANY.

3. REVERTING TO THIS MORNING'S CONVERSATION WITH MINISTER OF MINES, RE CONVERSATIONS WITH THE PETROLEUM COMPANIES, MINISTER VALENTIN HERNANDEZ TOLD ME THAT HE HAD SET UP FORTNIGHTLY MEETINGS WITH CREOLE AND SHELL. THESE CONVERSATIONS WERE GOING ALONG AMICABLY, AND BOTH COMPANIES HAD PRODUCED FORMULAE WHICH WERE OF INTEREST TO VENEZUELAN GOVERNMENT. VENEZUELAN REALIZED, FOR EXAMPLE, THAT THEY NEEDED FOREIGN TECHNOLOGY AND MARKETS, AND HE THOUGHT THERE WAS ROOM FOR A CONTINUED COLLABORATION BETWEEN VENEZUELA AND THE OIL COMPANIES, GRANTED OF COURSE THE ALREADY ANNOUNCED INTENTION OF PRESIDENT PEREZ TO NATIONALIZE THE INDUSTRY.

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4. MINISTER SAID THAT THE PRESIDENTIAL COMMISSION OF 35 APPOINTED TO RECOMMENDED WAYS AND MEANS FOR NATIONALIZATION WAS MOVING AHEAD IN A BUSINESSLIKE WAY, WITH THREE OR FOUR KEY MEMBERS SERVING AS A STEERING COMMITTEE TO AVOID THE LARGER COMMISSION GETTING OUT OF HAND. THE MINISTER HIMSELF HAD SUGGESTED THAT MEMBERS OF THE COMMISSION MIGHT IN FACT PROFIT BY VISITING SOME OF THE OTHER COUNTRIES WHICH HAD NATINALIZED IN WHOLE OR IN PART THEIR PETROLEUM

INDUSTRIES, BUT SAID THAT ONE DIFFICULTY WAS THAT IF MEMBERS OF THE COMMISSION VISITED THE PERSIAN GULF IN MIDSUMMER, THEY WOULD DIE OF HEAT; WHEREAS IF THEY WAITED UNTIL THE COOLER MONTH OF NOVEMBER, IT WOULD BE TOO LATE FOR THE PURPOSE OF THEIR STUDY.
MCCLINTOCK

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